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Research Update

America Online, Inc. - (AMER - \$35.75)

Two New Purchases: WAIS Inc. and Medior Inc.: Buy

52 week range	\$48.13-\$13.75	EPS	FY94A	FY95E	FY96E
Common Shares Outstanding	44.0/36.0	Q1	\$0.01A	\$0.08A	\$0.14E
Market Cap (mm)	\$1,804	Q2	\$0.00A	\$0.10A	\$0.18E
Revenues - LTM (mm)	\$275.2	Q3	\$0.03A	\$0.12A	\$0.21E
Book Value Per Share	\$4.17	Q4	\$0.02A	\$0.13E	\$0.21E
Fiscal Year End	June	Year	\$0.07A	\$0.43E	\$0.75E
		P/E	NM	83.1	47.7

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America Online (AOL) purchases two companies: WAIS Inc. and Medior Inc., for \$30 million and \$15 million respectively—in stock and through pooling. The purchases are expected to be earnings neutral and close in May. Medior is at a \$10 million run rate with 100 employees, while WAIS is at almost \$4 million with 40 employees. Medior creates CD/online combo products while WAIS sells Web server software with search capabilities.

Medior, the larger of the two, is the company that actually created 2Market for Apple and Redgate. 2Market, launched last winter, is a CD ROM based composite catalog featuring multiple retailers and products. Medior is also active in other areas:

- 1) jointly developed consumer products such as Movie Select and Rock, Rap and Roll.
- 2) corporate sales from their customizable Sales Information System, for digitizing and integrating sales material with an intelligent navigator. This tool is then used by a sales force for dynamic presentations.

WAIS Inc. (<http://www.wais.com/>) is a software developer marketing WAISServer, and WAISGate. Its products allow content providers to publish information, and for users to search and retrieve that information on the Web. WAISGate has http capabilities and lets users view wais databases with Web browsers.

Additionally, AOL plans to work with CD ROM developers to integrate "one button access" in to their products. AOL will work with developers such as Broderbund to install an icon to access AOL, much as Microsoft plans to do with its operating system. This button will send the user to an appropriate online location—such as a user discussion group or an area to find play partners for games. Where appropriate, the network can be used to download updates in products that require them.

We are not changing numbers, but are convinced that AOL is building a formidable arsenal to attack the Internet and should be able to provide complete services for its content providers both on the service and on the Internet. We agree that online providers will become one gateway to data stored in a variety of locations, and both content providers and users will be able to pick and choose their level of added-value. Despite the onslaught of negative publicity coming from the launch Microsoft Network, we continue to consider AOL better positioned for the long term, and recommend the stock.

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